

Supply and demand simulation paper assignment

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Supply and Demand Simulation Paper Principles of Microeconomics 365

Matthew J. Angner June 1, 2010 University of Phoenix Online Introduction The supply and demand simulation was based on the management of rental apartments by GoodLife Management. The apartments are in a fictitious town called Atlantis.

Topics that will be reviewed in this paper include changes in supply and demand, how shifts in supply and demand affects decision-making, key points from the reading assignments that were emphasized in the simulation, application of the supply and demand concepts at the author's workplace, how price elasticity of demand affects the decision-making of the consumer and to the organization, and a summary of the results of the assessment. Causes for Change in Supply and Demand

The causes for changes in supply and demand in the simulation were driven by the availability of two-bedroom rental apartment, demand for these rentals, the quantity of available renters, and the price per month. In the simulation, the demand curve is downward sloping so as the price of the rentals decreased, the demand increased. However, the supply curve is upward sloping. The number of apartments increased as the price increased. A surplus in the market for the apartments exerts downward pressure on the price. Adversely, a shortage in the market exerts an upward pressure on price.

To attract renters, GoodLife would need to lower prices if there were a surplus in the market or increase prices if there were a shortage in the market. In order to maintain the balance of quantity demanded and quantity

supplied, GoodLife would need to raise their prices. Shifts in Supply and Demand Management directional changes of GoodLife along with population changes within Atlantis and the neighboring areas affected supply and demand. Preference changes of the tenants caused the demand for apartments to decrease. GoodLife management converted rental apartments into condominiums to sell causing a decrease in the supply causing a decrease in the supply and a decrease in demand at the same time. This created a shift to the left (decrease) in the supply curve and the demand curve. Key Points from Reading Assignments The four key points from the reading assignment emphasized in the simulation were supply and demand, equilibrium, shifts in supply and demand, and price ceilings. The simulation itself was based on the premise of supply and demand. Supply and demand is the economic term defining the relationship between demand, supply, and price. As price increases, quantity demanded decreases.

When price decreases, quantity demanded increases. Shifts in supply and demand were illustrated using different causes resulting in a decrease in supply and demand concurrently. Equilibrium is the quantity demanded equals the quantity supplied. When prices are below equilibrium, the quantity demanded exceeds the quantity supplied and there is a shortage in the market. Consumers, then, are willing to buy more than producers are willing to sell at this price. This causes price to increase. As price increases, quantity demanded decreases and quantity supplied increases.

This adjustment process continues until equilibrium is attained. Similarly, at prices above equilibrium, quantity supplied exceeds quantity demanded, and there is a surplus in the market. Producers are willing to sell more than

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consumers are willing to buy, which exerts a downward pressure on price. The price continues to decrease until equilibrium is attained. The simulation demonstrated that if apartment prices were below equilibrium, the number of apartments demanded exceeded the quantity available, which resulted in a shortage in the quantity of available apartments.

This also caused the price of the rental apartments to increase. If prices were above equilibrium, there would be a surplus of available apartments and this would drive the price down. Price ceilings are “ a government imposed limit on how high a price can be charged” (Colander, 2008, p. 109). The limit is usually below the equilibrium price. Price ceilings can cause issues in the equilibrium between supply and demand. If the price for the apartments were at the ceiling price, and the demand for the apartments increase, the supply would then begin to decrease.

The simulation showed that this scenario escalated and the quantity demanded exceeded the quantity available and a shortage will continue.

Application of Supply and Demand Concepts The writer has a career as a Supplier Development Engineer in the Automotive Industry. The products produced include interior and exterior door handles and exterior mirrors. Although there are other automotive supplier’s who produce the same products, generally there are only a handful of these suppliers. Therefore, understanding the market for the products produced affects production on a supply and demand level.

Changes in the economy in 2009 affected the production levels of our products. Vehicles were not selling, especially the larger SUV’s and truck

platforms. Due to the decrease in demand, it created a surplus in the quantity of product on-hand. What did not occur, however, is a change in the price of the products. The product prices remained constant. What did change was the number of employees, which was reduced by 25% as well as a reduction in salaries for all employees. These reductions compensated for the pricing of the products not changing. Price Elasticity of Demand Price elasticity of demand is the percentage change in quantity demanded divided by the percentage change in price” (Colander, 2008, p. 128). It refers to the way prices change in relationship to the demand, or the way demand changes in relationship to price. Usually goods or services offered at a lower price leads to a demand for greater quantity. As a consumer, if an item is on sale, you may purchase several instead of just one. This means that though the seller offers the product at a lower price, he usually ends up making money because the demand for the product has increased.

However, if the price is too low, the retailer may lose money by selling too many at a reduced price. Results of Assessment The concepts of the supply and demand were the basis for the simulation on the management of rental apartments by GoodLife Management. The simulation demonstrated how different causes in supply and demand affected the availability of two-bedroom apartments and rental pricing. Key concepts covered included Supply and Demand, Equilibrium, Shifts in demand and supply, and price ceiling.

The application of supply and demand concepts at the author’s workplace were detailed as well as how price elasticity of demand can affect the decision-making process of the consumer and to an organization. References <https://assignbuster.com/supply-and-demand-simulation-paper-assignment/>

University of Phoenix. (2010). Applying Supply and Demand Concepts [Computer Software]. Retrieved from University of Phoenix, Simulation, ECO365 website. Colander, D. C. (2008). Economics 7th Edition. Retrieved from <https://ecampus.phoenix.edu/content/eBookLibrary2/content/DownloadList>. GRADE: 100%